

Don Marcos Trading CO
Form 10-K
March 31, 2011
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 000-52692

DON MARCOS TRADING CO.
(Exact name of registrant as specified in its charter)

Florida 65-0921319
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

1535 Southeast 17th Street, Suite 107, Ft. Lauderdale, Florida 33316
(Address of principal executive offices)

Registrant's telephone number, including area code: (954) 356-8111

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, no par value
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained herein, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

| | | | |
|-------------------------|-----------------------|---------------------------|----------------------------------|
| Large accelerated filer | <input type="radio"/> | Accelerated filer | <input type="radio"/> |
| Non-accelerated filer | <input type="radio"/> | Smaller reporting company | <input checked="" type="radio"/> |

Indicate by check mark whether the registrant is a shell company. Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter was \$1,620,000 (based on 16,200,000 shares at \$0.10 per share).

The registrant had 48,300,000 shares of common stock outstanding as of March 31, 2011.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated herein by reference in Part IV, Item 15: (i) Registration Statement on Form SB-2, filed on May 15, 2007, as amended (Registration No. 333-142976); (ii) Annual Report on Form 10-KSB, filed on March 31, 2008; (iii) Current Report on Form 8-K, filed on April 30, 2008; (iv) Current Report on Form 8-K, filed on August 14, 2008; (v) Annual Report on Form 10-K, filed on April 14, 2009; (vi) Annual Report on Form 10-K, filed on April 14, 2010; and (vii) Quarterly Report on Form 10-Q, filed on November 18, 2010.

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PART I

ITEM 1. BUSINESS.

Business Development

We were incorporated on May 11, 1999 in the state of Florida to be the sole importer and distributor of Don Marcos Coffee.

Business of Registrant

Don Marcos Coffee is grown, roasted and packaged in Costa Rica by the Don Marcos Coffee Company, S.A., a Costa Rica company. On January 23, 2003, we entered into a Distributorship Agreement with Don Marcos Coffee Company, S.A. Don Marcos Coffee Company, S.A. is a licensed coffee exporter. Coffee exports are regulated by the National Costa Rican Coffee Institute (INCAFE).

Don Marcos Coffee is a specialty grade coffee, sometimes called gourmet or premium coffee. Specialty coffees are made from exceptional beans grown only in ideal coffee-producing climates. They tend to feature distinctive flavors, which are shaped by the unique characteristics of the soil that produces them.

Don Marcos Coffee is designated Strictly Hard Bean (SHB) by the grower, Don Marcos Coffee Company, S.A. SHB is part of a classification system for Costa Rican coffees, with the characteristic of being cultivated at an altitude higher than 3,900 feet above sea level. In Costa Rica, coffee trees that grow at this altitude produce higher quality beans that have a high density that holds in the nutrients and flavor the beans during roasting.

The coffee is not roasted until the time of order for maximum freshness. It can be packaged ground or whole bean.

We order coffee in quantities of 69 kilograms. This is the standard size export bag. For wholesale orders, the coffee is shipped to us in a 69 kilogram bulk pack.

For retail sales, we use a custom printed, 12-ounce foil side gusseted bag. There are approximately 202 bags per order. The bags are dropped shipped by the bag manufacturer directly to Costa Rica. The bags are machine filled and machine sealed in Costa Rica. The filled bags are then shipped directly to our offices. In addition, we offer custom packaging for both resale and business promotion.

We sell our coffee directly on our e-commerce website, www.donmarcos.com and plan to distribute coffee to specialty coffee stores and select restaurants as well.

Competition

Although we face intense competition from numerous other coffee distributors, we believe that we can compete on the basis of the quality and uniqueness of our products. We believe our products are unique because:

- Our coffee is specialty coffee. Specialty coffee is defined as a coffee that has no defects and has a distinctive flavor in the cup. Like wine and honey, specialty coffee has a unique flavor thanks to the micro-climates that produce it. Our coffee is full bodied with a sweet caramel taste.
- Our coffee is Strictly Hard Bean. Strictly Hard Bean is part of a classification system for coffees, with the characteristic of being cultivated above 3,900 feet above sea level. In Costa Rica, coffee trees that grow at this altitude produce higher quality beans that have a high density that holds in the nutrients and flavor the beans during roasting.
- Our packaging is unique in that our bag incorporates a one-way degassing valve to protect the freshness of the coffee.
- Our coffee is processed under the highest quality standards, using the latest and most environmentally friendly machinery available. We maintain the strictest environmental standards concerning water quality, recycling and reforestation.

However, many of our competitors are substantially larger, better financed and have superior resources compared to us. Therefore, there is no guarantee that we will be able to successfully compete with them.

We have numerous competitors. Some of our competitors are large companies selling a large variety of products, including products that compete with our coffee. Competitors include Kraft General Foods, Inc., The Kroger Co., The Procter & Gamble Company, and Sara Lee Corporation. Our noteworthy competitors for specialty coffee include:

1. Caf Britt
2. Triangulo de Oro
3. Caf 1820
4. Volio
5. Caf Rey

These are five popular coffee companies from Costa Rica. Other coffee companies, such as Peets and Starbucks, offer coffee from several regions of the world. The five competitors listed above are direct competitors of our company because they all produce only Costa Rican coffee like Don Marcos Coffee.

Sources and Availability of Raw Material and Principal Suppliers

Don Marcos Coffee is grown, roasted, and packaged in Costa Rica by the Don Marcos Coffee Company, S.A., a Costa Rica company. On January 23, 2003, we entered into a Distributorship Agreement with Don Marcos Coffee Company, S.A. The material terms of our Distributorship Agreement with Don Marcos Coffee Company, S.A. are:

- We have exclusive worldwide rights to distribute all coffee products of Don Marcos Coffee Company, S.A.
 - We have the right to appoint subdistributors, but have not done so yet.
 - We must place a minimum order of \$200 with payment terms of net 30 days.
 - We have a 30 day right of inspection of the coffee.
- The agreement has an initial term of five years with automatic five year renewals unless either party terminates in writing at least 90 days prior to the end of any term.
- We pay the current market price for coffee when we place an order for coffee from Don Marcos Coffee Company, S.A.

If Don Marcos Coffee Company, S.A. terminated the Distributorship Agreement, it would be difficult to find a replacement distributor and our operations would suffer.

Dependence on Major Customers

We are not dependent on any one customer for a substantial portion of our sales of any product.

Intellectual Property

We own the registered trademark, Don Marcos, registration number 2559462, registered on April 9, 2002 with the U.S. Patent and Trademark Office. At this time, we do not have any other trademark, copyright or patent protection.

Employees

As of the date hereof, we have three full-time employees. We plan to hire independent contractors on an “as needed” basis only. We have no collective bargaining agreements with our employees. We believe that our employee relationships are satisfactory.

ITEM 1A.

RISK FACTORS

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

ITEM 1B.

UNRESOLVED STAFF COMMENTS

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

ITEM 2.

PROPERTIES

Our office encompasses 800 square feet located in downtown Ft. Lauderdale, Florida in a building owned by Hudson Capital Group. Our management believes these premises are in good condition. Hudson Capital Group allows us to use this space free of charge. Although Hudson Capital Group can revoke our right to use this space at any time, we have been informed by its principal, Steven W. Hudson, that Hudson Capital Group intends to allow us to continue using the space free of charge for the foreseeable future. However, should we be evicted from the space, we would need to relocate to new facilities and may lack the funds to do so.

ITEM 3.

LEGAL PROCEEDINGS

To the best knowledge of management, there are no litigation matters pending or threatened against us.

ITEM 4.

(REMOVED AND RESERVED)

PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND
5. ISSUER PURCHASES OF EQUITY SECURITIES

Market for Common Equity

Our common stock is currently quoted on the Over-The-Counter Bulletin Board under the Symbol "DNMO." Our common stock was first eligible for quotation on the Over-the-Counter Bulletin Board on March 5, 2008. The last sale price of our common stock was \$0.10 per share on March 28, 2008, without retail mark-up, mark-down or commissions.

The above quotations are inter-dealer quotations from market makers of our common stock. At certain times the actual closing or opening quotations may not represent actual trades that took place.

Holdings

As of March 31, 2011, there were 86 shareholders holding certificated securities. We act as our own transfer agent.

Dividends

We have paid no dividends on our common stock since inception and do not anticipate or contemplate paying cash dividends in the foreseeable future.

Securities Authorized for Issuance under Equity Compensation Plans

None.

Recent Sales of Unregistered Securities

None.

ITEM 6.

SELECTED FINANCIAL DATA

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion and analysis should be read in conjunction with our financial statements, including the notes thereto, appearing elsewhere in this Report.

Overview

We were incorporated on May 11, 1999 in the state of Florida to be the sole importer and distributor of Don Marcos® Coffee.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses. In consultation with our Board of Directors, we have identified several accounting principles that we believe are key to understanding of our financial statements. These important accounting policies require management's most difficult, subjective judgments.

Development Stage Enterprise

We are a development stage enterprise, as defined ASC 915, "Accounting and Reporting By Development Stage Enterprises."

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled as prescribed in ASC 740, "Accounting for Income Taxes." As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Net Loss per Share

We adopted ASC 260, "Earnings Per Share" that requires the reporting of both basic and diluted earnings (loss) per share. Basic earnings (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. In accordance with ASC 260, any anti-dilutive effects on net income (loss) per share are excluded.

Inventory

Inventory is stated at the lower of cost (determined by the first-in, first-out method), or market. Inventories are adjusted for estimated obsolescence and written down to net realizable value based upon estimates of future demand, technology developments, and market conditions.

Stock Issued for Non-Cash Transactions

It is our policy to value stock issued for non-cash transactions, such as services, at the fair market value of the goods or services received or the consideration granted, whichever is more readily determinable, at the date the transaction is negotiated.

There were no shares of common stock issued for services during the years ended December 31, 2010 and 2009.

Going Concern

Our financial statements are prepared using generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. Our ability to continue as a going concern is dependent upon our ability to locate sources of capital, and attain future profitable operations. Our management is currently initiating their business plan. The accompanying financial statements do not include any adjustments that might be necessary should we be unable to continue as a going concern.

Stock Based Compensation

We adopted ASC 718, Share Based Payment, under the modified-prospective transition method on January 1, 2006. ASC 718 requires companies to measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair-value. Share-based compensation recognized under the modified-prospective transition method of ASC 718 includes share-based compensation based on the grant-date fair-value determined in accordance with the original provisions of ASC 718, for all share-based payments granted prior to and not yet vested as of January 1, 2006 and share-based compensation based on the grant-date fair-value determined in accordance with ASC 718 for all share-based payments granted after January 1, 2006. ASC 718 eliminates the ability to account for the award of these instruments under the intrinsic value method prescribed by the Accounting Principles Board, and allowed under the original provisions of SFAS No. 123. Prior to the adoption of SFAS No. 123R, we accounted for our stock option plans using the intrinsic value method in accordance with the provisions of APB Opinion No. 25 and related interpretations.

Stock-based compensation represents the cost related to stock-based awards granted to employees. We measure stock-based compensation cost at grant date, based on the estimated fair value of the award, and recognizes the cost as expense on a straight-line basis (net of estimated forfeitures) over the employee requisite service period. We estimate the fair value of stock options using a Black-Scholes valuation model. The expense is recorded in operating expenses in the condensed statements of operations.

Results of Operations

You should read the selected financial data set forth below along with our discussion and our financial statements and the related notes. We have derived the financial data from our audited financial statements. We believe the financial data shown in the table below include all adjustments consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of such information. Operating results for the period are not necessarily indicative of the results that may be expected in the future.

| | Year Ended December 31, 2010 (Audited) | Year Ended December 31, 2009 (Audited) | Increase/ (Decrease) |
|----------------------|--|--|-------------------------|
| Revenue | \$344 | \$1,152 | \$(808) |
| Operating expenses | 34,984 | 32,646 | \$(2,338) |
| Net (loss) | (34,640) | (31,494) | \$(3,146) |
| Net (loss) per share | \$(0.00) | \$(0.00) | \$(0.00) |

Results for the Year Ended December 31, 2010 Compared to the Year Ended December 31, 2009 (audited)

Revenues

We had revenues from operations in the amount of \$344 for the year ended December 31, 2010 as compared to revenues of \$1,125 for the year ended December 31, 2009.

Operating Expenses

Operating expenses increased by \$2,338 to \$34,984 for the year ended December 31, 2010, as compared to \$32,646 for the year ended December 31, 2009. The increase arose from an increase in legal and accounting fees.

Net Loss

Primarily as a result of our operating expenses, we had a net loss of \$34,640 for the year ended December 31, 2010 compared to a net loss of \$31,494 for the year ended December 31, 2009.

Liquidity and Capital Resources

We currently have no material commitments for capital expenditures and have no fixed expenses.

Working capital is summarized and compared as follows:

| | December 31, 2010 | December 31, 2009 |
|---------------------|-------------------------|-------------------------|
| Current assets | \$ 10,505 | \$ 9,403 |
| Current liabilities | 57,311 | 21,569 |
| Deficit | \$(46,806 |) \$(12,166) |

Our net cash used by operations was \$48,784 for the year ended December 31, 2010 as compared to \$22,144 for the year ended December 31, 2009. During the year ended December 31, 2010, we experienced a net loss of \$34,640. In addition, we had a decrease in accounts receivable of \$96 and a decrease in inventory of \$18. This was offset by a decrease in accounts payable and accrued expenses of \$14,258. During the year ended December 31, 2009, we experienced a net loss of \$31,494. In addition, we had an increase in accounts receivable of \$96. These were offset by an increase in accounts payable and accrued expenses of \$9,393 and a decrease in inventory of \$53.

There was no net cash used or provided from investing activities for the years ended December 31, 2010 and 2009.

Our net cash provided from financing activities was \$50,000 from proceeds from stockholder notes during the year ended December 31, 2010 and \$20,000 during the year ended December 31, 2009, from the sale of common stock for cash.

Off-Balance Sheet Arrangements

None.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required to be filed pursuant to this Item 8 begin on page F-1 of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our President and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of the end of period covered by this report. Based upon such evaluation, the President and Chief Financial Officer concluded that our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to our management, including our President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Management assessed our internal control over financial reporting as of December 31, 2010, the end of our fiscal-year. Management based its assessment on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included evaluation of elements such as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment.

Based on our assessment, management has concluded that our internal control over financial reporting was effective as of the end of the fiscal-year to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. We reviewed the results of management's assessment with our Board of Directors.

Inherent Limitations on Effectiveness of Controls

Our management, including the CEO and CFO, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by its registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only management's report in this annual report.

ITEM 9B.

OTHER INFORMATION

We have nothing to report under this Item.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Directors and Executive Officers

Our directors and executive officers are as follows:

| Name | Age | Position |
|---------------------|-----|------------------------------------|
| Earl T. Shannon | 43 | Director, President |
| Steven W. Hudson | 41 | Director, Executive Vice President |
| Scott W. Bodenweber | 39 | Director, Chief Financial Officer |
| Peter Wright | 59 | Director, Secretary |
| Mark E. Tupper | 64 | Director |

Earl T. Shannon, President, Director. Mr. Shannon has been our President and one of our Directors since our inception. Mr. Shannon was an officer and director of Salty's Warehouse, Inc. from its inception on July 16, 1998 through its sale on December 11, 2006. From January 1997 and continuing through the present, Mr. Shannon has been the President of Winthrop Venture Management, Inc., an investment management company based in Fort Lauderdale, Florida.

Steven W. Hudson, Executive Vice President, Director. Mr. Hudson has been with us since February 1, 2007. Mr. Hudson was an officer and director of Salty's Warehouse, Inc. from April 20, 2004 through its sale on December 11, 2006. Mr. Hudson was President and CEO of International Yacht Construction from May 1999 through July 3, 2007. Since June 1997, Mr. Hudson also has served as President and CEO of Hudson Capital Group, a private investment firm. Mr. Hudson graduated from Southern Methodist University with a Bachelor of Arts degree in Business Economics.

Scott W. Bodenweber, Chief Financial Officer, Director. Mr. Bodenweber joined us January 21, 2003. Mr. Bodenweber was an officer and director of Salty's Warehouse, Inc. from April 20, 2004 through its sale on December 11, 2006. From June 1997 and continuing through the present, Mr. Bodenweber has been the Controller of Hudson Capital Group, an investment firm in Fort Lauderdale, Florida. Mr. Bodenweber graduated from Florida State University in 1994 with Bachelor of Science Degrees in both Accounting and Finance. He is a licensed Certified Public Accountant in the State of Florida.

Peter Wright, Secretary, Director. Mr. Wright joined us on January 21, 2003. Mr. Wright has been the Chief Financial Officer of Hudson Capital Group, an investment firm in Fort Lauderdale, Florida from May 1998 continuing through the present. Mr. Wright graduated from Stetson University in 1975, with a Bachelor of Science degree in Accounting.

Mark E. Tupper, Director. Mr. Tupper joined us on February 1, 2007. Mr. Tupper has been the founder, Chief Executive Officer, and principal shareholder of Don Marcos Coffee Company, S.A. since its inception on March 27, 2000. Mr. Tupper has been the founder, Chief Executive Officer, and principal shareholder of Tupper Centroamerica, S.A. since its inception on July 9, 1982. Mr. Tupper graduated from the American School in Switzerland with studies in World & European History, the University of Aix-en-Provence in France in European Politics & French Literature, and the Lewisham Technical College of London, England in Mechanical Engineering.

Our Directors serve until the next annual meeting or until their successors are qualified and elected. Our Officers serve at the discretion of the Board of Directors.

Family Relationships

Mark E. Tupper, one of our directors, is the uncle of Earl T. Shannon, who is our President and one of our directors.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and certain officers, as well as persons who own more than 10% of a registered class of our equity securities, ("Reporting Persons") to file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the Securities and Exchange Commission.

Based solely upon a review of the copies of such forms, we believe that all Reporting Persons have complied on a timely basis with all filing requirements applicable to them.

ITEM 11. EXECUTIVE COMPENSATION

Summary Compensation Table

None of our officers or directors is currently receiving any cash compensation for their services.

Outstanding Equity Awards at Fiscal Year-End

In order to compensate our officers and directors, we enacted an Incentive and Nonstatutory Stock Option Plan on February 1, 2007. Our stock option plan has a total of 5,000,000 shares reserved for issuance as stock options. All issued options are 100% vested. Other than our stock option plan, we do not currently have any arrangements or contracts pursuant to which our officers and directors are compensated for any services, including any additional amounts payable for committee participation or special assignments. No such arrangements were in effect between us and our officers and directors for the last completed fiscal year, either. As of the date of this report, we have issued the following stock options:

| Name | Number of securities underlying unexercised options (#) exercisable | Number of securities underlying unexercised options (#) unexercisable | Option Awards | | Option exercise price (\$) | Option expiration date |
|---------------------|---|---|---|---------------------|----------------------------|------------------------|
| | | | Equity incentive plan awards: Number of securities underlying unexercised | unearned options(#) | | |
| Earl T. Shannon | 1,000,000 | -0- | -0- | | \$0.005 | 02/01/17 |
| Steven W. Hudson | 1,000,000 | -0- | -0- | | \$0.005 | 02/01/17 |
| Scott W. Bodenweber | 1,000,000 | -0- | -0- | | \$0.005 | 02/01/17 |
| Peter Wright | 1,000,000 | -0- | -0- | | \$0.005 | 02/01/17 |
| Mark E. Tupper | 1,000,000 | -0- | -0- | | \$0.005 | 02/01/17 |
| TOTAL | 5,000,000 | -0- | -0- | | | |

Compensation of Directors

Our Directors do not receive any cash compensation, but are entitled to reimbursement of their reasonable expenses incurred in attending directors' meetings.

We do not have any audit, nominating, compensation, or other committee of our Board of Directors.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information regarding our shares of outstanding common stock beneficially owned as of the date hereof by (i) each of our directors and executive officers, (ii) all directors and executive officers as a group, and (iii) each other person who is known by us to own beneficially more than 5% of our common stock based upon 48,300,000 issued shares of common stock.

| Name and Address of Beneficial Owners ¹ | Amount and Nature of Beneficial Ownership | Percent Ownership ² |
|--|---|--------------------------------|
| Earl T. Shannon, Director, President | 13,225,000 ³ | 26.8% |
| Steven W. Hudson, Director, Executive Vice President | 10,737,500 ⁴ | 21.8% |
| Scott W. Bodenweber, Director, Chief Financial Officer | 10,937,500 ⁵ | 21.8% |
| Peter Wright, Director, Secretary | 1,200,000 ⁶ | 2.4% |
| Mark E. Tupper, Director | 2,000,000 ⁷ | 4.1% |
| All executive officers and directors as a group (five persons) | 38,100,000 | 77.3% |

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Steven W. Hudson is a principal of Hudson Capital Group, which furnishes us with office space, a value of approximately \$400 per month, on a rent-free basis.

Don Marcos Coffee is grown, roasted, and packaged in Costa Rica by the Don Marcos Coffee Company, S.A., a Costa Rica company owned and operated by Mark E. Tupper. Mark E. Tupper is the uncle of Earl T. Shannon, our President and one of our directors. We have an exclusive distributorship agreement with Don Marcos Coffee Company, S.A., the material terms of which are described in Part I, Item 1, Description of Business—Sources and Availability of Raw Materials and Principal Suppliers.

¹ C/o our address, 1850 Southeast 17th Street, Suite 300, Ft. Lauderdale, FL 33316.

² Except as otherwise indicated, we believe that the beneficial owners of common stock listed above, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws where applicable. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable, or exercisable within 60 days, are deemed outstanding for purposes of computing the percentage of the person holding such options or warrants, but are not deemed outstanding for purposes of computing the percentage of any other person.

³ Includes 1,000,000 options to purchase shares of common stock at \$0.005 per share until February 1, 2017.

⁴ Includes 1,000,000 options to purchase shares of common stock at \$0.005 per share until February 1, 2017 and 400,000 shares of common stock owned by family members.

⁵ Includes 1,000,000 options to purchase shares of common stock at \$0.005 per share until February 1, 2017 and 600,000 shares owned by family members.

⁶

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Consists of 1,000,000 options to purchase shares of common stock at \$0.005 per share until February 1, 2017 and 200,000 shares owned by family members.

7 Includes 1,000,000 options to purchase shares of common stock at \$0.005 per share until February 1, 2017.

On April 9, 2010, Scott W. Bodenweber, our Chief Financial Officer and one of our directors, loaned us \$25,000 at an interest rate of 1% per annum for six months. On October 9, 2010, the maturity date of this note was extended to October 9, 2011. On November 5, 2010, Mr. Bodenweber loaned us \$25,000 at an interest rate of 1% per annum until October 9, 2011. These transactions were approved by our Board of Directors.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Weaver & Martin, LLC (“Weaver”)

Weaver was our independent auditor and examined our financial statements for the years ended December 31, 2010 and December 31, 2009. Weaver performed the services listed below and was paid the fees listed below for the years ended December 31, 2010 and December 31, 2009.

Audit Fees

Weaver was paid aggregate fees of approximately \$8,800 and \$8,750 for the years ended December 31, 2010 and December 31, 2009, respectively, for professional services rendered for the audit of our annual financial statements and for the reviews of the financial statements included in our quarterly reports on Form 10-Q during the first, second and third quarters of 2010 and 2009.

Audit Related Fees

Weaver was not paid additional fees for the years ended December 31, 2010 and December 31, 2009 for assurance and related services reasonably related to the performance of the audit or review of our financial statements.

Tax Fees

Weaver was not paid fees for the years ended December 31, 2010 and December 31, 2009 or professional services rendered for tax compliance, tax advice, and tax planning during this fiscal year period.

All Other Fees

Weaver was not paid any other fees for professional services during the years ended December 31, 2010 and December 31, 2009.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Exhibits

- 3.1 Articles of Incorporation of Don Marcos Trading Co., filed May 11, 1999¹
- 3.2 Amendment to Articles of Incorporation of Don Marcos Trading Co., filed February 6, 2003²
- 3.3 Amendment to Articles of Incorporation of Don Marcos Trading Co., filed February 14, 2007³
- 3.4 Amendment to Articles of Incorporation of Don Marcos Trading Co., filed May 4, 2007⁴
- 3.5 Amended and Restated Bylaws of Don Marcos Trading Co., dated February 2, 2007⁵
- 10.1 2007 Incentive and Nonstatutory Stock Option Plan, dated February 1, 2007⁶
- 10.2 Distributorship Agreement dated January 23, 2003⁷
- 10.3 Stock Purchase Agreement with Earl T. Shannon, dated April 1, 2008²
- 10.4 Stock Purchase Agreement with Steven W. Hudson, dated April 1, 2008²
- 10.5 Stock Purchase Agreement with Scott W. Bodenweber, dated April 1, 2008²
- 10.6 Stock Purchase Agreement with Earl T. Shannon, dated August 4, 2008³
- 10.7 Stock Purchase Agreement with Steven W. Hudson, dated August 4, 2008³
- 10.8 Stock Purchase Agreement with Scott W. Bodenweber, dated August 4, 2008³
- 10.9 Stock Purchase Agreement with Earl T. Shannon, dated April 13, 2009⁴
- 10.10 Stock Purchase Agreement with Steven W. Hudson, dated April 13, 2009⁴
- 10.11 Stock Purchase Agreement with Scott W. Bodenweber, dated April 13, 2009⁴
- 10.12 Stock Purchase Agreement with Mark E. Tupper, dated July 14, 2009⁵
- 10.13 Promissory Note with Scott W. Bodenweber, dated April 9, 2010⁶
- 10.14 Second Promissory Note with Scott W. Bodenweber, dated November 5, 2010⁶
- 14 Code of Ethics⁷
- 31.1 Certification of Chief Executive Officer Pursuant to the Securities Exchange Act of 1934, Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer Pursuant to the Securities Exchange Act of 1934, Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002

1 Incorporated by reference from our Registration Statement on Form SB-2, filed on May 15, 2007, as amended (Registration No. 333-142976).

2 Incorporated by reference from our Current Report on Form 8-K, filed on April 30, 2008.

3 Incorporated by reference from our Current Report on Form 8-K, filed on August 14, 2008.

4 Incorporated by reference from our Annual Report on Form 10-K, filed on April 14, 2009.

5 Incorporated by reference from our Annual Report on Form 10-K, filed on April 14, 2010.

6 Incorporated by reference from our Annual Report on Form 10-Q, filed on November 18, 2010.

7 Incorporated by reference from our Annual Report on Form 10-KSB, filed on March 31, 2008.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, duly authorized.

DON MARCOS TRADING CO.

DATED: March 31, 2011

By: /s/ Earl T. Shannon
Earl T. Shannon
Director, President
(Principal Executive Officer and
Director)

DATED: March 31, 2011

By: /s/ Scott W. Bodenweber
Scott W. Bodenweber
Director, Chief Financial Officer
(Principal Financial Officer, Principal
Accounting Officer, and Director)

DATED: March 31, 2011

By: /s/ Steven W. Hudson
Steven W. Hudson
Director, Executive Vice President
(Director)

To the Board of Directors and Stockholders
Don Marcos Trading Co.
Ft. Lauderdale, FL

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the balance sheet of Don Marcos Trading Co. as of December 31, 2010 and 2009 and the related statements of operations, stockholders' equity, and cash flows for the years then ended. Don Marcos Trading Co.'s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. Our audit of the financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Don Marcos Trading Co. as of December 31, 2010 and 2009, and the results of its operations, stockholders' equity, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations and is dependent upon the continued sale of its securities or obtaining debt financing for funds to meet its cash requirements. These factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Weaver & Martin, LLC
Weaver & Martin, LLC
Kansas City, Missouri
March 31, 2011

DON MARCOS TRADING CO.

(A DEVELOPMENT STAGE COMPANY)

BALANCE SHEETS

DECEMBER 31, 2010 AND 2009

| | 2010 | 2009 |
|---|------------------|------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$1,685 | \$469 |
| Accounts receivable | - | 96 |
| Inventory | 8,820 | 8,838 |
| TOTAL CURRENT ASSETS | \$10,505 | \$9,403 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | \$7,311 | \$21,569 |
| Notes payable, stockholder | 50,000 | - |
| TOTAL CURRENT LIABILITIES | 57,311 | 21,569 |
| STOCKHOLDERS' DEFICIT | | |
| Preferred stock, no stated value | | |
| Authorized - 10,000,000 shares | | |
| Issued and outstanding -0- shares | - | - |
| Common stock, no par value | | |
| Authorized - 100,000,000 shares | | |
| Issued and outstanding - 48,300,000 shares at | | |
| December 31, 2010 and 2009 | 243,454 | 243,454 |
| Deficit accumulated during the | | |
| development stage | (290,260) | (255,620) |
| TOTAL STOCKHOLDERS' DEFICIT | (46,806) | (12,166) |
| TOTAL LIABILITIES AND | | |
| STOCKHOLDERS' DEFICIT | \$10,505 | \$9,403 |

The accompanying notes are an integral part of these financial statements.

DON MARCOS TRADING CO.
(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
AND FOR THE PERIOD FROM MAY 11, 1999 (INCEPTION) TO DECEMBER 31, 2010

| | 2010 | 2009 | May 11, 1999 (Inception) To December 31, 2010 |
|--|-------------|-------------|--|
| REVENUES | \$344 | \$1,152 | \$1,976 |
| OPERATING EXPENSES | 34,984 | 32,646 | 292,236 |
| NET (LOSS) | \$(34,640) | \$(31,494) | \$(290,260) |
| NET (LOSS) PER SHARE | | | |
| Basic and diluted | \$(.00) | \$(.00) | |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | | | |
| Basic and diluted | 48,300,000 | 46,984,900 | |

The accompanying notes are an integral part of these financial statements

DON MARCOS TRADING CO.
 (A DEVELOPMENT STAGE COMPANY)
 STATEMENT OF STOCKHOLDERS' EQUITY
 DECEMBER 31, 2010

| | Common Stock Shares | Amount | Deficit Accumulated During The Development Stage | Total |
|--|------------------------|-----------|--|-------------|
| BALANCE, DECEMBER 31, 2008 | 44,300,000 | \$223,454 | \$(224,126) | \$(672) |
| Common stock issued for cash | 4,000,000 | 20,000 | - | 20,000 |
| Net (loss) for the year ended December 31, 2009 | - | - | (31,494) | (31,494) |
| BALANCE, DECEMBER 31, 2009 | 48,300,000 | 243,454 | (255,620) | (12,166) |
| Net (loss) for the year ended December 31, 2010 | - | - | (34,640) | (34,640) |
| BALANCE, DECEMBER 31, 2010 | 48,300,000 | \$243,454 | \$(290,260) | \$(46,806) |

The accompanying notes are an integral part of these financial statements.

DON MARCOS TRADING CO.

(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

AND FOR THE PERIOD FROM MAY 11, 1999 (INCEPTION) TO DECEMBER 31, 2010

| | 2010 | 2009 | May 11, 1999 (Inception) To December 31, 2010 |
|---|------------------|------------------|--|
| CASH FLOWS FROM | | | |
| OPERATING ACTIVITIES: | | | |
| Net (loss) | \$(34,640) | \$(31,494) | \$(290,260) |
| Adjustments to reconcile net (loss) to net cash (used) by operating activities: | | | |
| Common stock issued for services | - | - | 3,635 |
| Stock based compensation | - | - | 45,474 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | 96 | (96) | - |
| Inventory | 18 | 53 | (8,820) |
| Accounts payable and accrued expenses | (14,258) | 9,393 | 7,311 |
| NET CASH (USED) IN | | | |
| OPERATING ACTIVITIES | (48,784) | (22,144) | (242,660) |
| CASH FLOWS FROM | | | |
| INVESTING ACTIVITIES | | | |
| | - | - | - |
| CASH FLOWS FROM | | | |
| FINANCING ACTIVITIES | | | |
| Proceeds from notes payable, stockholder | 50,000 | - | 50,000 |
| Issuance of common stock for cash | - | 20,000 | 192,000 |
| Cash contributed by stockholder | - | - | 2,345 |
| NET CASH PROVIDED BY | | | |
| FINANCING ACTIVITIES | 50,000 | 20,000 | 244,345 |
| NET INCREASE (DECREASE) IN CASH | | | |
| AND CASH EQUIVALENTS | 1,216 | (2,144) | 1,685 |
| CASH AND CASH EQUIVALENTS, | | | |
| BEGINNING OF YEAR | 469 | 2,613 | - |
| CASH AND CASH EQUIVALENTS, | | | |
| END OF YEAR | \$1,685 | \$469 | \$1,685 |

The accompanying notes are an integral part of these financial statements

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DON MARCOS TRADING CO.

(A DEVELOPMENT STAGE COMPANY)
 STATEMENTS OF CASH FLOWS (CONTINUED)
 FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
 AND FOR THE PERIOD FROM MAY 11, 1999 (INCEPTION) TO DECEMBER 31, 2010

| | 2010 | 2009 | May 11, 1999 (Inception) To December 31, 2010 |
|---|------|------|--|
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | | |
| CASH PAID DURING THE YEAR FOR: | | | |
| Interest | \$- | \$- | \$- |
| Taxes | \$- | \$- | \$- |
| NON-CASH INVESTING ACTIVITIES | | | |
| Stock-based compensation | \$- | \$- | \$45,474 |

The accompanying notes are an integral part of these financial statements

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DON MARCOS TRADING CO.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business and History of Company

Don Marcos Trading Co. (“the Company”) is a development stage enterprise incorporated on May 11, 1999 in the state of Florida. The Company is the sole importer and distributor of Don Marcos coffee.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Fair value of financial instruments

For certain Company instruments, including cash and accounts payable and accrued expenses, the carrying amounts approximate fair value due to their short maturities.

Net Loss Per Share

The Company adopted ASC 260, “Earnings Per Share,” that requires the reporting of both basic and diluted earnings (loss) per share. Basic earnings (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. In accordance with ASC 260, any anti-dilutive effects on net income (loss) per share are excluded.

Revenue Recognition

The Company recognizes revenue from product sales when shipment of product to the customer has been made, which is when title passes. The Company estimates and records provisions for rebates, sales returns and allowances in the period the sale is recorded. Shipping and handling charges are included in gross sales, with the related costs included in selling, general and administrative expenses.

DON MARCOS TRADING CO.

(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010 AND 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

Inventory is stated at the lower of cost (determined by the first-in, first-out method) or market. Inventories are adjusted for estimated obsolescence and written down to net realizable value based upon estimates of future demand, technology developments, and market conditions.

Common Stock Issued for Non-Cash Transaction

It is the Company's policy to value stock issued for non-cash transactions, such as services, at the fair market value of the goods or services received or the consideration granted, whichever is more readily determinable, at the date the transaction is negotiated.

Income Taxes

Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled as prescribed in ASC 740, "Accounting for Income Taxes". As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. In evaluating the Company's tax provisions and accruals, future taxable income, the reversal of temporary differences, and tax planning strategies are considered. The Company believes their estimates are appropriate based on current facts and circumstances.

The Company adopted the new accounting for uncertainty in income tax guidance which clarifies the accounting and recognition for tax positions taken or expected to be taken in its income tax returns. The Company's income tax filings are subject to audit by various taxing authorities.

Stock Based Compensation

Effective November 1, 2005, the Company adopted ASC 718, "Compensation-Stock Compensation." Under this method, compensation cost is recognized on or after the effective date for the portion of outstanding awards, for which the requisite service has not yet been rendered, based on the grant date fair value of those awards. For stock-based awards issued on or after November 1, 2005, the Company recognizes the compensation cost on a straight-line basis over the requisite service period for the entire award. Measurement and attribution of compensation cost for awards that are unvested as of the effective date of ASC 718 are based on the same estimate of the grant-date or modification-date fair value and the same attribution method used previously under ASC 718.

DON MARCOS TRADING CO.

(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010 AND 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Development Stage Enterprise

The Company is a development stage enterprise, as defined in ASC 915, "Development Stage Entities." The Company's planned principal operations have not commenced, and accordingly, only nominal revenue has been derived during this period.

Recently Issued Accounting Pronouncements

In September 2006, the Company adopted ASC 250, "Changes and Error Corrections." ASC 250 was issued to provide consistency to how companies quantify financial statement misstatements. ASC 250 establishes an approach that requires companies to quantify misstatements in financial statements based on effects of the misstatement on both the balance sheet and statement of operations and the related financial statement disclosures. Additionally, companies must evaluate the cumulative effect of errors existing in prior years that previously had been considered immaterial. We adopted ASC 250 in connection with the preparation of our annual financial statements for the years ended October 31, 2010 and 2009 and found no adjustments necessary.

In September 2006, the Company adopted ASC 820, "Fair Value Measurements and Disclosures." ASC 820 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. ASC 820 does not require any new fair value measurements, rather, its application will be made pursuant to other accounting pronouncements that require or permit fair value measurements. ASC 820 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years. The provisions of ASC 820 are to be applied prospectively upon adoption, except for limited specified exceptions. We are evaluating the requirements of ASC 820 and do not expect the adoption to have a material impact on our balance sheet or statement of operations.

In June 2006, the Company adopted ASC 740, "Accounting for Uncertainty in Income Taxes." ASC 740 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements. It prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. ASC 740 is effective for fiscal years beginning after December 15, 2006 and was adopted by us on November 1, 2007. We do not expect the adoption of ASC 740 to have a material impact on our balance sheet or statement of operations.

DON MARCOS TRADING CO.

(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010 AND 2009

NOTE 2

GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the recoverability of assets and the satisfaction of liabilities in the normal course of business.

The Company's development activities since inception have been financially sustained through stockholder contributions to the Company and issuance of common stock. The Company may raise additional funding to continue its operations through contributions from the current shareholders and stock issuance to other investors.

The ability of the Company to continue as a going concern is dependent upon its ability to raise additional capital from the sale of common stock and, ultimately, the achievement of significant operating revenues. The accompanying financial statements do not include any adjustments that might be required should the Company be unable to recover the value of its assets or satisfy its liabilities.

Management plans to eliminate the going concern situation which includes, but it not limited to obtaining investors to fund the working capital needs of the Company.

NOTE 3

INVENTORY

Inventory consists of the following for the years ended December 31, 2010 and 2009:

| | 2010 | 2009 |
|-----------|---------|---------|
| Materials | \$8,820 | \$8,838 |

NOTE 4

NOTES PAYABLE, OFFICER AND STOCKHOLDERS

At December 31, 2010, the Company had two notes payable from an officer stockholder of the Company for the amount of \$50,000. The notes accrue interest at 1%, are unsecured and are due on October 9, 2011.

NOTE 5

PREFERRED STOCK

The Company has not assigned any preference rights to the preferred stock.

NOTE 6 COMMON STOCK

On April 1, 2008, the Company sold 2,400,000 shares of its common stock, no par value, with an aggregate value of \$12,000, to three officers of the company.

On August 4, 2008, the Company sold 4,800,000 shares of its common stock, no par value, for cash in the amount of \$24,000 to three officers of the company.

DON MARCOS TRADING CO.

(A DEVELOPMENT STAGE COMPANY)
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2010 AND 2009

NOTE 6 COMMON STOCK (CONTINUED)

On April 13, 2009, the Company entered into Stock Purchase Agreements with certain of the Company's officers for the sale to those officers of the Company's common stock for cash as follows:

| Name of Officer | Number of Common Stock Shares Purchased | Purchase Price Paid |
|---------------------|---|------------------------|
| Earl Shannon | 1,000,000 | \$5,000 |
| Steven W. Hudson | 1,000,000 | \$5,000 |
| Scott W. Bodenweber | 1,000,000 | \$5,000 |

Pursuant to the Stock Purchase Agreements described above, the Company sold an aggregate of 3,000,000 shares of its common stock at a price of \$0.005 per share to three accredited investors for gross proceeds of \$15,000. The Company relied on the exemption from registration relating to offerings that do not involve any public offering pursuant to Section 4(2) under the Act and/or Rule 506 of Regulation D promulgated pursuant thereto. The Company believes that the investors are "accredited investors" under Rule 501 under Regulation D of the Act and had adequate access to information about the Company.

On July 14, 2009, the Company entered into Stock Purchase Agreements with Mark Tupper, a Director of the Company, for the sale of 1,000,000 shares of common stock for cash for an aggregate value of \$5,000.

NOTE 7

STOCK OPTIONS

The directors of the Company approved the Don Marcos Trading Co., Inc. 2007 Incentive and Nonstatutory Stock Option Plan which permits the officers to grant, for a ten year period, both stock purchase rights and stock options. The Company has reserved 5,000,000 shares of its common stock for issuance to the directors, employees and consultants under the Plan. The Plan is administered by the officers of the Company. The administrators have the authority and discretion, subject to the provisions of the Plan, to select persons to whom stock purchase rights or options will be granted, to designate the number of shares to be covered by each option or stock purchase right, to specify the type of consideration to be paid, and to establish all other terms and conditions of each option or stock purchase right. Options granted under the Plan will not have a term that exceeds ten years from date of grant. The stock subject to the Plan and issuable upon exercise of options granted under the Plan are shares of the Company's common stock, no par value, which may be restricted, or grants of options to purchase shares of common stock.

DON MARCOS TRADING CO.

(A DEVELOPMENT STAGE COMPANY)
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2010 AND 2009

NOTE 7

STOCK OPTIONS (CONTINUED)

During the years ended December 31, 2010 and 2009, there were no options issued.

A summary of the option and warranty activity for the year ended December 31, 2009 follows:

| | Shares Under Option | Weighted Average Exercise Price |
|--|---------------------------|--|
| Options outstanding at January 1, 2009 | - | \$- |
| Issuances | 5,000,000 | 0.005 |
| Cancelled, expired or new issuances | - | - |
| Options outstanding at December 31, 2009 | 5,000,000 | \$0.005 |

Information regarding stock options outstanding as of December 31, 2009 is as follows:

| | |
|---|------------------|
| Price | \$0.005 |
| Weighted average exercise price | \$0.005 |
| Weighted average remaining contractual life | 7 years, 1 month |

A summary of the option and warranty activity for the year ended December 31, 2010 follows:

| | Shares Under Option | Weighted Average Exercise Price |
|--|---------------------------|--|
| Options outstanding at January 1, 2010 | 5,000,000 | \$0.005 |
| Cancelled, expired or new issuances | - | - |
| Options outstanding at December 31, 2010 | 5,000,000 | \$0.005 |

Information regarding stock options outstanding as of December 31, 2010 is as follows:

| | |
|---|------------------|
| Price | \$0.005 |
| Weighted average exercise price | \$0.005 |
| Weighted average remaining contractual life | 6 years, 1 month |

DON MARCOS TRADING CO.

(A DEVELOPMENT STAGE COMPANY)
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2010 AND 2009

NOTE 8

INCOME TAXES

Provision (Benefit)

There was no income tax provision (benefit) for the years ended December 31, 2010 and 2009.

Deferred Tax Components

Significant components of the Company's deferred tax assets are as follows:

| | 2010 | 2009 |
|----------------------------------|-----------|------------|
| Net operating loss carryforwards | \$59,000 | \$48,000 |
| Less valuation allowance | (59,000) | (48,000) |
| Net deferred tax assets | \$- | \$- |

Summary of valuation allowance:

| | 2010 | 2009 |
|----------------------------|----------|----------|
| Balance, beginning of year | \$48,000 | \$39,000 |
| Increase for the year | 11,000 | 9,000 |
| Balance, end of year | \$59,000 | \$48,000 |

In assessing the realizability of deferred assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

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DON MARCOS TRADING CO.

(A DEVELOPMENT STAGE COMPANY)
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2010 AND 2009

NOTE 8

INCOME TAXES (CONTINUED)

Net Operating Loss Carryforwards

| Year of Loss | 2010 | 2009 | Expiration Date |
|-------------------|-----------|-----------|-------------------|
| December 31, 2007 | \$87,000 | \$87,000 | December 31, 2027 |
| December 31, 2008 | 43,000 | 43,000 | December 31, 2028 |
| December 31, 2009 | 31,000 | 31,000 | December 31, 2029 |
| December 31, 2010 | 35,000 | - | December 31, 2030 |
| | \$196,000 | \$161,000 | |

NOTE 9

SUBSEQUENT EVENTS

The Company's management has reviewed all material events through the date of this report in accordance with ASC 855-10, and believes there are no further material subsequent events to report.